

**SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION, AND
INDEPENDENT AUDITORS' REPORTS
FOR THE YEARS ENDED
JUNE 30, 2015 AND 2014**

SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
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SPENCER MUNICIPAL HOSPITAL
BOARD OF TRUSTEES AND OFFICIALS
JUNE 30, 2015

BOARD OF TRUSTEES

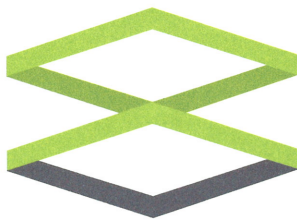
TITLE

TERM EXPIRES

John Cotton	Chairman	December 31, 2015
Neal Conover	Vice Chairman	December 31, 2017
Steve Lensing	Secretary/Treasurer	December 31, 2015
Gary VanHofwegen, DDS	Trustee	December 31, 2017
Kris Van Berkum	Trustee	December 31, 2015

HOSPITAL OFFICIALS

William Bumgarner	President and Chief Executive Officer
Stephen Deutsch	Vice President of Operations
Mark Gaworski	Vice President of Finance and Chief Financial Officer
Brenda Tiefenthaler	Vice President of Patient Care Services and Informatics
Susan Zulk	Vice President of Marketing and Fund Development



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Spencer Municipal Hospital and
Board of Managers of
Abben Cancer Center, LLC
Spencer, IA 51301

Report on Financial Statements

We have audited the accompanying financial statements of Spencer Municipal Hospital (Hospital), a component unit of the City of Spencer, Iowa, and Abben Cancer Center, LLC (Abben), a discretely presented component unit, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and we also audited the Hospital in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spencer Municipal Hospital and Abben Cancer Center, LLC, a discretely presented component unit, as of June 30, 2015 and 2014, and the results of their operations, changes in net position and members' equity, respectively, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 7 to the financial statements, Spencer Municipal Hospital adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information - Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Schedule of the Hospital's Proportionate Share of the Net Pension Liability, the Schedule of Hospital Contributions, and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 10 and 42 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information - Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hospital's basic financial statements. The supplemental information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information - Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The other information included in Schedule 7, which is marked "unaudited", is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2015 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Winther, Stave & Co., LLP

October 5, 2015
Spencer, Iowa

SPENCER MUNICIPAL HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Spencer Municipal Hospital (the Hospital) offers readers of our financial statements this narrative overview and analysis of the financial activities of the Hospital for the fiscal years ended June 30, 2015 and 2014. We encourage readers to consider the information presented here in conjunction with the Hospital's financial statements, including the notes thereto.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Hospital's audited financial statements. The financial statements are composed of the statement of net position, statement of revenues, expenses, and changes in net position, and the statement of cash flows. The financial statements also include notes to the financial statements that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Hospital's financial position. In addition, the basic financial statements of Abben Cancer Center, LLC, a component unit, are separately presented.

Financial Statements

The Hospital's financial statements report information of the Hospital using accounting methods similar to those used by private sector healthcare organizations. These statements offer short- and long-term information about its activities. The statement of net position includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). The statement of net position also provides the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the Hospital's operations over the past two years and can be used to determine whether the Hospital has successfully recovered all of its costs through its patient service revenue and other revenue sources. The Hospital does not receive any funding or property tax revenues from the City of Spencer. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and related financing activities. It also provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Highlights for 2015

- Total assets increased by \$8,989,907 to \$118,474,580.
- Net position decreased by \$8,772,342, due to restatement, see Note 13.
- Total noncurrent cash and investments decreased by \$5,124,989.
- Total liabilities increased by \$11,725,073.
- The operating margin for fiscal year 2015 was 12.32%.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Financial Highlights for 2014

- Total assets increased by \$5,103,035 to \$109,484,673.
- Net position increased by \$6,211,010.
- Total noncurrent cash and investments increased by \$269,270.
- Total liabilities decreased by \$1,107,975.
- The operating margin for fiscal year 2014 was 5.81%.

Financial Analysis of the Hospital

The statement of net position and the statement of revenues, expenses, and changes in net position report the net position of the Hospital and the changes in them. The Hospital's net position - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

Assets, Liabilities, and Net Position

A summary of the Hospital's statements of net position at June 30, 2015, 2014, and 2013 are presented in Table 1 below:

Table 1 (in thousands)

Condensed Statements of Net Position	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 63,285	\$ 59,352	\$ 55,835
Capital assets	52,513	50,133	48,547
Deferred outflows of resources	<u>2,677</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$118,475</u>	<u>\$109,485</u>	<u>\$104,382</u>
Current liabilities	\$ 8,912	\$ 8,152	\$ 7,827
Long-term liabilities	17,031	6,066	7,499
Deferred inflows of resources	<u>6,037</u>	<u>0</u>	<u>0</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>\$ 31,980</u>	<u>\$ 14,218</u>	<u>\$ 15,326</u>
Invested in capital assets - net of related debt	\$ 46,777	\$ 42,924	\$ 39,990
Restricted	2,079	2,172	2,150
Unrestricted	<u>37,639</u>	<u>50,171</u>	<u>46,916</u>
TOTAL NET POSITION	<u>\$ 86,495</u>	<u>\$ 95,267</u>	<u>\$ 89,056</u>

Net position decreased by \$8,772,342 to \$86,494,751 in fiscal year 2015. Net position increased by \$6,211,010 to \$95,267,093 in fiscal year 2014. The change in net position results primarily from operating income. Net position was also restated as of July 1, 2014, due to changes in accounting for pensions. Please see Note 13 for additional information.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Revenues, Expenses, and Changes in Net Position

The following table presents a summary of the Hospital's historical revenues, expenses, and changes in net position for each of the fiscal years ended June 30, 2015, 2014, and 2013.

Table 2 (in thousands)

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30,		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 72,648	\$ 65,736	\$ 65,611
Operating expenses	<u>63,700</u>	<u>61,914</u>	<u>62,179</u>
Operating income	8,948	3,822	3,432
Nonoperating income (expense)	<u>(886)</u>	<u>2,286</u>	<u>1,482</u>
Excess of revenues over expenses before contributions	8,062	6,108	4,914
Contributions	<u>390</u>	<u>103</u>	<u>677</u>
Change in net position	8,452	6,211	5,591
Total net position - beginning of year	<u>78,043</u>	<u>89,056</u>	<u>83,465</u>
 TOTAL NET POSITION - END OF YEAR	 <u>\$ 86,495</u>	 <u>\$ 95,267</u>	 <u>\$ 89,056</u>

Please see Note 13 on accounting change and restatement of net position as of July 1, 2014.

Operating and Financial Performance

The following discusses the Hospital's operations and statements of revenue, expenses, and changes in net position as of June 30, 2015, 2014, and 2013.

Volume - Volume statistics are as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Inpatient discharges	2,484	2,221	2,549
Inpatient days	10,574	8,846	10,188
Outpatient visits	121,603	116,756	114,657

Net Patient Service Revenue - Our net patient service revenues increased \$6,788,403 in 2015 and increased \$272,716 in 2014. These changes are the result of the following changes in gross revenues and contractual and bad debt adjustments. Contractual adjustments are the estimated amounts the Hospital will not collect from Medicare, Medicaid, and insurance companies.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total patient service revenues	\$176,787,554	\$154,840,311	\$143,668,788
Contractual and bad debt adjustments	(107,658,943)	(92,500,103)	(81,601,296)
Adjustments as percent of revenues	<u>60.9%</u>	<u>59.7%</u>	<u>56.8%</u>

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table presents the relative percentages of gross charges billed for patient services by payor for the years ended June 30, 2015, 2014, and 2013.

Table 3

Payor Mix by Percentage

	Year Ended June 30,		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Medicare	47.48%	48.47%	47.77%
Wellmark/Blue Cross/Blue Shield	27.89	28.23	27.80
Managed Care/Commercial	8.96	8.78	9.68
Medicaid	10.35	8.19	7.81
All other	<u>5.32</u>	<u>6.33</u>	<u>6.94</u>
 TOTAL	 <u>100.00%</u>	 <u>100.00%</u>	 <u>100.00%</u>

Salaries - Salaries increased by \$700,901 in 2015 and decreased by \$802,544 in 2014. For the fiscal year ended June 30, 2015, the Hospital employed 429 full-time equivalent employees, compared to 423 in 2014 and 454 in 2013. The Hospital is in a competitive wage market and annually utilizes numerous surveys to ensure a competitive compensation package is offered to employees.

Employee Benefits - Benefits decreased by \$1,216,247 in 2015 and increased by \$192,701 in 2014. The decrease in benefits during fiscal year 2015 is due to the implementation of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. Please see Notes 7 and 13 for more details. The Hospital offers a comprehensive benefit package to its employees. Benefits include but are not limited to health insurance, short and long-term disability, IPERS, and life insurance.

Cash Flows - The Hospital's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

Capital Assets

At June 30, 2015, the Hospital had \$111,674,194 invested in capital assets as shown in Table 4. The \$8,020,684 net increase in capital assets was due to major purchases for the fiscal year including the real estate purchase of a surgical center in Spencer and a family practice clinic building in Milford. Major equipment purchases during the fiscal year include a surgical robot, new ambulance, and electronic health record software for the home health, community health and hospice departments.

At June 30, 2014, the Hospital had \$103,653,510 invested in capital assets as shown in Table 4. The \$7,743,427 net decrease in capital assets is primarily as a result of a house wide capital asset review and the subsequent updating for scrapped or disposed equipment and furnishings. There were also increases in capital assets due to some of the major purchases for the fiscal year including the remodeling of the intensive care unit and the mental health unit, infrastructure chiller improvements, remodeling of a radiology treatment room and a medical office building, the purchase of rental real estate adjacent to the hospital campus, new beds and mattresses for the medical and surgical unit, instrument washers for the surgery department, new ambulance, and an upgrade to the MRI in the diagnostic imaging department.

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table summarizes the Hospital's capital assets as of June 30, 2015, 2014, and 2013.

Table 4

Capital Assets (in thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Land	\$ 2,906	\$ 2,461	\$ 2,430
Land improvements	1,853	1,812	1,846
Buildings	55,719	52,763	48,434
Fixed equipment	10,947	10,689	10,152
Major movable equipment	39,390	35,795	45,276
Construction in progress	<u>859</u>	<u>134</u>	<u>3,259</u>
Subtotal	111,674	103,654	111,397
Less accumulated depreciation	<u>59,161</u>	<u>53,521</u>	<u>62,850</u>
 CAPITAL ASSETS - NET	 <u>\$ 52,513</u>	 <u>\$ 50,133</u>	 <u>\$ 48,547</u>

Long-Term Debt

The Hospital had long term-debt balances of \$5,736,264 and \$7,209,085 as of June 30, 2015 and 2014, respectively. Further details are provided in the financial statement notes.

Performance Compared to Budget

The following table compares fiscal year 2015 actual to budget information for the statement of revenues, expenses, and changes in net position.

Table 5

Budget vs. Actual (in thousands)

	FY 2015 <u>Budget</u>	FY 2015 <u>Actual</u>	Dollar Variance Favorable (Unfavorable)
Operating revenues	\$ 72,714	\$ 72,648	\$ (66)
Operating expenditures	<u>65,333</u>	<u>63,700</u>	<u>1,633</u>
Operating income	7,381	8,948	1,567
Other nonoperating changes in net position.....	<u>(321)</u>	<u>(496)</u>	<u>(175)</u>
 Excess of revenues over expenses	 <u>\$ 7,060</u>	 <u>\$ 8,452</u>	 <u>\$ 1,392</u>

SPENCER MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Economic and Other Factors and Next Year's Budget

The Hospital's Board and management considered many factors when setting the fiscal year budgets. Of primary importance in setting the 2016 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Medicare, Medicaid and Wellmark/Blue Cross Blue Shield reimbursement rates
- Privacy legislation (HIPAA)
- Healthcare reform legislation
- Increased expectations for quality at a lower price
- Workforce shortages
- Cost of supplies and equipment
- Cost of construction projects
- Increasing drug costs
- Drug shortages
- Decreasing number of uninsured patients
- Increasing insurance deductibles
- Investment market

Community Contributions

During fiscal years 2015 and 2014, the Hospital contributed much to the communities it serves. Charity care and uncompensated care totaled \$1,860,706 and \$3,207,305, respectively.

The Hospital provides many services that are operated at a loss for the benefit of the communities it serves. Many of these programs are offered at no cost; a few are offered for a minimal service fee. Services offered for the benefit of these communities include: emergency services coverage at community events, wellness screenings, job shadowing/internships, various health education classes, public safety awareness programs, support groups, and providing the use of facilities to community groups.

In addition, many routine services are provided by the Hospital at a loss. These include: Ambulance Services, Cardiac/Pulmonary Rehabilitation, Home Health and Public Health Programs, Inpatient Mental Health, Best Care for Better Babies, Women's Health, Rehabilitation Services (Physical, Occupational, and Speech), Family Practice Clinics in Milford and Sioux Rapids, and Diabetic Education.

Contacting the Hospital's Finance Department

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. The Hospital's component unit, Abben Cancer Center, LLC, has prepared separate financial statements. If you have questions about the Hospital's report, Abben's report, or need additional financial information, please contact the finance department at Spencer Municipal Hospital, 1200 First Avenue East, Spencer, Iowa 51301.

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF NET POSITION
JUNE 30, 2015 AND 2014

ASSETS

	<u>2015</u>	<u>2014</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 32,207,670	\$ 26,266,803
Patient receivables - net of allowances for doubtful accounts and contractual adjustments of \$16,240,500 and \$12,803,200, respectively	10,233,310	8,127,938
Other receivables	1,562,359	1,445,820
Investments	11,876,835	11,382,556
Inventories	3,154,154	2,961,944
Prepaid expenses	<u>1,308,305</u>	<u>1,095,419</u>
TOTAL CURRENT ASSETS	<u>60,342,633</u>	<u>51,280,480</u>
NONCURRENT CASH AND INVESTMENTS:		
Internally designated for capital improvements	266,848	5,298,499
Principal of permanent endowments	1,877,475	1,971,975
Restricted by donors for operations	<u>201,480</u>	<u>200,318</u>
TOTAL NONCURRENT CASH AND INVESTMENTS	<u>2,345,803</u>	<u>7,470,792</u>
CAPITAL ASSETS:		
Land	2,906,450	2,460,747
Construction in progress	859,092	134,274
Depreciable property, plant, and equipment	<u>107,908,652</u>	<u>101,058,489</u>
TOTAL CAPITAL ASSETS	111,674,194	103,653,510
Less accumulated depreciation	<u>59,161,480</u>	<u>53,520,309</u>
CAPITAL ASSETS - NET	<u>52,512,714</u>	<u>50,133,201</u>
OTHER ASSETS:		
Investment in Abben	623,869	633,809
Investment (share of deficiency) in home medical equipment co.	<u>(27,543)</u>	<u>(33,609)</u>
TOTAL OTHER ASSETS	<u>596,326</u>	<u>600,200</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Pension related deferred outflows	<u>2,677,104</u>	-
 TOTALS	 <u>\$118,474,580</u>	 <u>\$109,484,673</u>

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF NET POSITION - Continued
JUNE 30, 2015 AND 2014

LIABILITIES AND NET POSITION

	<u>2015</u>	<u>2014</u>
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 1,543,192	\$ 1,472,821
Accounts payable:		
Trade	2,057,114	1,887,275
Construction and equipment	329,000	166,000
Accrued salaries and wages	3,622,509	3,337,331
Payroll taxes payable	261,363	215,040
Estimated third-party payor settlements	501,217	501,217
Other current liabilities	597,380	572,463
TOTAL CURRENT LIABILITIES	<u>8,911,775</u>	<u>8,152,147</u>
LONG-TERM LIABILITIES:		
Long-term debt - net of current portion	4,193,072	5,736,264
Net pension liability	12,607,868	-
Other post-employment benefits	229,938	329,169
TOTAL LONG-TERM LIABILITIES	<u>17,030,878</u>	<u>6,065,433</u>
TOTAL LIABILITIES	<u>25,942,653</u>	<u>14,217,580</u>
DEFERRED INFLOWS OF RESOURCES:		
Pension related deferred inflows	6,037,176	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>6,037,176</u>	<u>-</u>
NET POSITION:		
Net investment in capital assets	46,776,451	42,924,116
Restricted by donor - nonexpendable	1,877,475	1,971,975
Restricted by donor - expendable	201,480	200,318
Unrestricted	37,639,345	50,170,684
TOTAL NET POSITION	<u>86,494,751</u>	<u>95,267,093</u>
TOTALS	<u>\$118,474,580</u>	<u>\$109,484,673</u>

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES:		
Net patient service revenue	\$ 69,128,611	\$ 62,340,208
Abben Cancer Center net earnings	490,060	543,472
Clinic revenue	560,531	512,666
Other operating revenues	<u>2,468,395</u>	<u>2,339,227</u>
TOTAL OPERATING REVENUES	<u>72,647,597</u>	<u>65,735,573</u>
OPERATING EXPENSES:		
Salaries	22,068,475	21,367,574
Employee benefits	6,833,673	8,049,920
Professional services	7,953,721	7,417,680
Prescription drugs	5,905,174	5,521,235
Supplies and other	15,253,825	14,124,761
Depreciation	<u>5,685,283</u>	<u>5,432,789</u>
TOTAL OPERATING EXPENSES	<u>63,700,151</u>	<u>61,913,959</u>
OPERATING INCOME	<u>8,947,446</u>	<u>3,821,614</u>
NONOPERATING INCOME (EXPENSES):		
Interest income	254,982	246,784
Investment income - net of related expenses	455,876	2,544,604
Impairment losses	(1,075,307)	-
Interest expense	(302,980)	(428,430)
Loss on disposal of capital assets	(211,741)	(73,121)
Scholarships granted	<u>(6,770)</u>	<u>(4,000)</u>
NET NONOPERATING INCOME (EXPENSES)	<u>(885,940)</u>	<u>2,285,837</u>
INCOME BEFORE CONTRIBUTIONS	8,061,506	6,107,451
CAPITAL CONTRIBUTIONS	<u>390,333</u>	<u>103,559</u>
CHANGE IN NET POSITION	8,451,839	6,211,010
NET POSITION - BEGINNING OF YEAR (2015, as restated) .	<u>78,042,912</u>	<u>89,056,083</u>
NET POSITION - END OF YEAR	<u>\$ 86,494,751</u>	<u>\$ 95,267,093</u>

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 67,583,770	\$ 61,724,985
Cash paid to suppliers for goods and services	(29,317,351)	(27,703,812)
Cash paid to employees for services	(29,926,119)	(28,484,561)
Other operating revenues	2,345,790	2,465,889
Other amounts paid	<u>(6,770)</u>	<u>(4,000)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>10,679,320</u>	<u>7,998,501</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of capital assets	(8,117,788)	(7,256,061)
Purchase of intangibles	(1,075,307)	-
Proceeds from sale of capital assets	4,251	-
Principal payments on long-term debt	(1,472,821)	(1,405,121)
Interest paid on long-term debt	(308,689)	(376,388)
Capital grants and contributions received	<u>390,333</u>	<u>103,559</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(10,580,021)</u>	<u>(8,934,011)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(847,194)	(10,833,302)
Proceeds from sale and maturities of investments	536,514	10,304,862
Income on investments	623,246	613,293
Distributions received from Abben	500,000	550,000
Change in other assets	<u>3,785</u>	<u>3,727</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>816,351</u>	<u>638,580</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	915,650	(296,930)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>31,990,872</u>	<u>32,287,802</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 32,906,522</u>	<u>\$ 31,990,872</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF FINANCIAL POSITION:		
Cash and cash equivalents per statements of financial position:		
Current assets	\$ 32,207,670	\$ 26,266,803
Included in noncurrent cash and investments	<u>698,852</u>	<u>5,724,069</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 32,906,522</u>	<u>\$ 31,990,872</u>

SPENCER MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS - Continued
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 8,947,446	\$ 3,821,614
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,685,283	5,432,789
Equity in earnings of Abben	(490,060)	(543,472)
Equity in (earnings) losses of home medical equipment co.	(6,066)	22,392
Components of non-operating and operating expenses reclassified for purposes of reporting cash flows:		
Scholarships awarded	(6,770)	(4,000)
(Increase) decrease in:		
Patient receivables	(2,105,372)	(958,352)
Other receivables	(116,539)	104,270
Inventories	(192,210)	(183,935)
Prepaid expenses	(212,886)	(159,395)
Deferred outflows of resources	(746,267)	-
Increase (decrease) in:		
Accounts payable	169,839	61,168
Accrued salaries and wages	285,178	608,653
Payroll taxes payable	46,323	33,660
Estimated third-party payor settlements	-	(189,188)
Net pension liability	(6,547,150)	-
Other liabilities	(68,605)	(47,703)
Deferred inflows of resources	<u>6,037,176</u>	<u>-</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 10,679,320</u>	<u>\$ 7,998,501</u>
 SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL, FINANCING, AND INVESTING ACTIVITIES:		
Capital asset purchases	\$ 8,280,788	\$ 7,165,504
Change in construction accounts payable	(163,000)	164,000
Net book value of equipment trade-ins	<u>-</u>	<u>(73,443)</u>
 Cash paid to purchase capital assets	<u>\$ 8,117,788</u>	<u>\$ 7,256,061</u>

ABBEN CANCER CENTER, LLC
 (A Component Unit of Spencer Municipal Hospital)
 BALANCE SHEETS
 JUNE 30, 2015 AND 2014

ASSETS

	<u>2015</u>	<u>2014</u>
CURRENT ASSETS:		
Cash	\$ 259,025	\$ 144,615
Patient receivables - net of allowance for doubtful accounts and contractual adjustments of \$310,100 and \$550,200, respectively	134,253	217,641
Prepaid expenses	<u>220,742</u>	<u>196,542</u>
 TOTAL ASSETS	 <u>\$ 614,020</u>	 <u>\$ 558,798</u>

LIABILITIES AND MEMBER'S EQUITY

CURRENT LIABILITIES:		
Accounts payable	\$ 28,153	\$ 49,884
Accounts payable to Spencer Municipal Hospital	<u>218,463</u>	<u>131,571</u>
TOTAL CURRENT LIABILITIES	246,616	181,455
 MEMBER'S EQUITY	 <u>367,404</u>	 <u>377,343</u>
 TOTAL LIABILITIES AND MEMBER'S EQUITY	 <u>\$ 614,020</u>	 <u>\$ 558,798</u>

ABBEN CANCER CENTER, LLC
 (A Component Unit of Spencer Municipal Hospital)
 STATEMENTS OF INCOME AND MEMBER'S EQUITY
 FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
NET PATIENT SERVICE REVENUE	<u>\$3,009,543</u>	<u>\$2,979,302</u>
OPERATING EXPENSES:		
Professional medical services	1,356,888	1,335,503
Medical supplies	13,650	12,429
Facility expenses	1,053,650	1,016,976
General and administrative	<u>103,610</u>	<u>81,017</u>
TOTAL OPERATING EXPENSES	<u>2,527,798</u>	<u>2,445,925</u>
OPERATING INCOME	<u>481,745</u>	<u>533,377</u>
NONOPERATING INCOME:		
Interest income	357	353
Contributions and other income	<u>7,959</u>	<u>9,742</u>
TOTAL NONOPERATING INCOME	<u>8,316</u>	<u>10,095</u>
NET INCOME	490,061	543,472
MEMBER'S EQUITY - BEGINNING OF YEAR	377,343	383,871
DISTRIBUTIONS TO HOSPITAL	<u>(500,000)</u>	<u>(550,000)</u>
MEMBER'S EQUITY - END OF YEAR	<u>\$ 367,404</u>	<u>\$ 377,343</u>

ABBEN CANCER CENTER, LLC
 (A Component Unit of Spencer Municipal Hospital)
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 490,061	\$ 543,472
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) decrease in:		
Patient receivables	83,388	(2,760)
Other current assets	(24,200)	(43,860)
Increase (decrease):		
Accounts payable	(21,731)	5,404
Accounts payable to Spencer Municipal Hospital	<u>86,892</u>	<u>(41)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>614,410</u>	<u>502,215</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions to Hospital	<u>(500,000)</u>	<u>(550,000)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(500,000)</u>	<u>(550,000)</u>
NET INCREASE (DECREASE) IN CASH	114,410	(47,785)
CASH AT BEGINNING OF YEAR	<u>144,615</u>	<u>192,400</u>
CASH AT END OF YEAR	<u>\$ 259,025</u>	<u>\$ 144,615</u>

SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Spencer Municipal Hospital (the Hospital) is a city public hospital organized under Chapter 392.6 of the Code of Iowa and is considered a component unit of the City of Spencer, Iowa. The Hospital is governed by a five-member board of trustees elected by the residents of Spencer for terms of four years. The Hospital provides primary and secondary health care services through the operation of an acute care hospital in Spencer, Iowa, two medical clinics, and other comprehensive health care programs. The majority of the Hospital's patients are from Spencer and northwest Iowa.

Reporting Entity

For financial reporting purposes, the Hospital has included all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. In accordance with Government Accounting Standards Board (GASB), the Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital.

Abben Cancer Center, LLC (Abben) is a legally separate wholly-owned limited liability company and is considered a discretely presented component unit of the Hospital. Abben was organized in 1996 and shall continue in existence until 2026 unless dissolved sooner in accordance with its operating agreement. Its financial statements are separately presented on pages 16 through 18. Abben is a medical clinic that operates a cancer treatment center on the Hospital's campus.

Avera Home Medical Equipment of Spencer Hospital, LLC (HME) is a legally separate limited liability company that the Hospital and Avera Home Medical Equipment, LLC formed in 2010. Each member owns 50% of HME and has an equal number of voting managers on its management committee. Due to the Hospital's lack of control over HME, it is not considered a component unit of the Hospital. HME sells home medical equipment from a retail location in Spencer.

Basis of Presentation

The statement of net position displays the Hospital's assets and liabilities, with the difference reported as net position.

Net position is reported in the following categories/components:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of long-term debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted by donor - nonexpendable net position consist of the principal portion of permanent endowments.

SPENCER MUNICIPAL HOSPITAL AND
ABBen CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation - Continued

Restricted by donor - expendable net position consist of noncapital net position that must be used for a particular purpose as specified by the donors.

Unrestricted net position consists of net position not meeting the definition of the three preceding categories. Unrestricted net position often has constraints on resources imposed by management or the board of trustees which can be removed or modified.

When both restricted and unrestricted net position are available for use, generally it is the Hospital's policy to use restricted net position first.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). Revenues are recognized when earned and expenses are recorded when the liability is incurred.

The Hospital uses enterprise fund accounting where revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus.

Abben's financial statements and related disclosures are prepared in accordance with GAAP as prescribed by the Financial Accounting Standards Board accounting standards.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, savings accounts, money market mutual funds, and all other highly liquid investments (including restricted assets) with original maturities of three months or less are considered cash equivalents.

Noncurrent Cash and Investments

Noncurrent cash and investments include funds restricted by donors for capital improvements or specific operations of the Hospital; permanently endowed funds; and assets set aside by the Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Permanent endowments require that the principal be retained in perpetuity.

SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Patient Receivables - Net

The Hospital and Abben report patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients, and others. Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Hospital and Abben analyze their past history and identify trends for each of their major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital and Abben analyze contractually due amounts and provide an allowance for uncollectible accounts and a provision for bad debts for those accounts over a certain age based on discharge that make the realization of amounts due unlikely. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), a significant provision for bad debts in the period of service on the basis of its past experience is recorded, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

Inventory

Inventory is valued at the lower of average cost or market using the first-in, first-out method and consists primarily of patient supplies, including pharmaceuticals and operating supplies.

Capital Assets

Capital assets are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets in accordance with the guidelines set forth by the American Hospital Association. Lives for the buildings and land improvements are five to fifty years while the equipment lives range from three to twenty years.

Management reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates an impairment in value. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value.

Investments

Investments in common stocks, mutual funds, and real estate held in the permanently endowed funds are carried at fair value based on quoted market prices or third-party appraisals. Investments in real estate not in the endowed funds are carried at cost. Donated investments are reported at fair value at the date of receipt, which is then treated as cost.

SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments - Continued

The Hospital's investments in Abben and HME are accounted for by using the equity method, where the Hospital records its share of the earnings or losses. The investment in Abben was approximately \$256,000 greater than the underlying member's equity at June 30, 2015 and 2014. The difference is attributable to goodwill which is tested for impairment on an annual basis.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Operating Revenues and Expenses

The reporting of the Hospital and Abben's revenues and expenses distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services.

Net Patient Service Revenue

The Hospital and Abben have agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectable accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Hospital and Abben recognize patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered, as noted above. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided or on the bases of discounted rates, if negotiated. On the basis of historical experience, a certain portion of uninsured patients will be unable or unwilling to pay for the services provided. As a result, the Hospital and Abben record a provision for bad debts related to uninsured patients in the period the services are provided.

Interest and Investment Income

Interest and investment income are recorded as nonoperating revenue. Investment income includes dividends, net rental income, and gains and losses, both realized and unrealized, on equity securities and real estate in the permanently endowed funds.

SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Interest Expense

Interest costs incurred on borrowed funds during the construction period of capital assets were capitalized as a component of the constructed assets. All of the borrowings from revenue bonds have been used to fund construction projects and equipment purchases.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported as fair value.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consists of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Charity Care and Community Benefits

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Hospital maintains records to identify and monitor the level of charity it provides. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. The amount of charges forgone, based on established rates, for 2015 and 2014, were \$132,875 and \$305,841, respectively. The costs of charity care are estimated to be \$47,000 and \$117,000 for 2015 and 2014, respectively. Costs are estimated by using the most recent cost to charge ratio available at the end of the year.

The Hospital provides many services that are operated at a loss for the benefit of the communities it serves. Many of these programs are offered at no cost; a few are offered for a minimal service fee. Services offered for the benefit of these communities include: emergency services coverage at community events, wellness screenings, job shadowing/internships, various health education classes, public safety awareness programs, support groups, and providing the use of facilities to community groups.

In addition, many routine services are provided by the Hospital at a loss. These include: Ambulance Services, Cardiac/Pulmonary Rehabilitation, Home Health and Public Health Programs, Inpatient Mental Health, Best Care for Better Babies, Women's Health, Rehabilitation Services (Physical, Occupational, and Speech), Family Practice Clinics in Milford and Sioux Rapids, and Diabetic Education.

SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

The Hospital is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code of 1986.

Abben is not a tax paying entity for federal and state income tax purposes and all of its net income is attributable to the Hospital and is therefore tax exempt.

Reclassifications

Certain amounts in the Hospital's 2014 financial statements have been reclassified to conform to 2015's presentation. These reclassifications had no impact on the change in net position.

Management's Review

In preparation of the financial statements, management has evaluated subsequent events through October 5, 2015, which is the date the financial statements were available to be issued.

2. CASH AND INVESTMENTS

The Hospital's deposits at June 30, 2015 and 2014 were entirely covered by FDIC or SIPC insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against members of the pool to insure there will be no loss of public funds. At June 30, 2015 and 2014, Abben had \$5,558 and \$0- in uninsured bank balances, respectively.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees of the Hospital; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies (mutual funds); certain joint investment trusts; investments in common stocks; and warrants or improvement certificates of a drainage district.

The Hospital's cash and investments at June 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$32,906,522	\$31,990,872
Common stocks and mutual funds	12,023,854	11,532,062
Real estate and other	<u>1,499,932</u>	<u>1,597,217</u>
 TOTAL CASH AND INVESTMENTS	 <u>\$46,430,308</u>	 <u>\$45,120,151</u>

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

2. CASH AND INVESTMENTS - Continued

The cash and investments shown above are included in the Hospital's statements of financial position as follows:

	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$32,207,670	\$26,266,803
Investments - common stocks and mutual funds	<u>11,876,835</u>	<u>11,382,556</u>
Subtotal	<u>44,084,505</u>	<u>37,649,359</u>
Noncurrent cash and investments:		
Cash and cash equivalents	698,852	5,724,069
Investments - mutual fund	147,019	149,506
Real estate and other	<u>1,499,932</u>	<u>1,597,217</u>
Subtotal	<u>2,345,803</u>	<u>7,470,792</u>
 TOTAL CASH AND INVESTMENTS	 <u>\$46,430,308</u>	 <u>\$45,120,151</u>

Common stock and mutual fund investments and real estate held in the permanently endowed fund are carried at fair value. The net unrealized gains on investments at June 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Common stocks	\$ 1,193,254	\$ 1,012,142
Real estate	<u>1,227,394</u>	<u>1,320,894</u>
 Net unrealized gain	 <u>\$ 2,420,648</u>	 <u>\$ 2,333,036</u>

Investment income consisted of the following:

	<u>2015</u>	<u>2014</u>
Unrealized gains (losses) on common stocks and mutual funds	\$ 181,112	\$ (258,321)
Unrealized gains (losses) on real estate	(93,500)	-
Realized gains on common stocks and mutual funds	82,491	2,436,416
Dividend income	226,945	226,670
Rental income - net of expenses	<u>58,828</u>	<u>139,839</u>
 TOTAL INVESTMENT INCOME - NET	 <u>\$ 455,876</u>	 <u>\$ 2,544,604</u>

In accordance with its investment policy, the Hospital manages its exposure to declines in fair values by owning investments with various maturities. These investments include fixed money market accounts, certificates of deposit, and equity securities. The Hospital's philosophy for investing funds allows for fluctuation in yearly returns without putting the Hospital's ability to meet current expenditures at risk.

The Hospital's investment policy also limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Hospital.

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

3. NET PATIENT SERVICE REVENUE

As a provider of health care services, the Hospital and Abben have agreements with third-party payors that provide for payment of services at amounts different from established rates. The basis for payment varies by payor and includes prospectively determined rates per discharge, discounts from established charges, and retroactively determined cost-based rates. Approximately 95 percent of the Hospital's gross patient charges determined at established rates for the years ended June 30, 2015 and 2014 resulted from patients covered by these third-party reimbursement programs. Significant changes have been made and may be made in certain of these programs which could have a material adverse impact on the financial condition of the Hospital and Abben in future years.

The following summarizes the differences between the Hospital's and Abben's gross patient service revenue determined at established rates and net patient service revenue:

	<u>Hospital</u>	
	<u>2015</u>	<u>2014</u>
Gross patient service revenue - at established rates	<u>\$176,787,554</u>	<u>\$154,840,311</u>
Adjustments:		
Medicare program	67,960,386	58,430,290
Medicaid program	11,835,055	8,229,757
Blue Cross/Wellmark	20,988,715	18,065,563
Other payors	5,014,081	4,567,187
Charity care	132,875	305,842
Bad debts	<u>1,727,831</u>	<u>2,901,464</u>
Total Adjustments	<u>107,658,943</u>	<u>92,500,103</u>
Net Patient Service Revenue	<u>\$ 69,128,611</u>	<u>\$ 62,340,208</u>

	<u>Abben</u>	
	<u>2015</u>	<u>2014</u>
Gross patient service revenue - at established rates	<u>\$ 10,511,467</u>	<u>\$ 10,837,814</u>
Adjustments:		
Medicare program	5,248,648	5,077,995
Other payors	2,244,538	2,765,183
Charity care	2,073	5,742
Bad debts	<u>6,665</u>	<u>9,592</u>
Total Adjustments	<u>7,501,924</u>	<u>7,858,512</u>
Net Patient Service Revenue	<u>\$ 3,009,543</u>	<u>\$ 2,979,302</u>

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

4. PATIENT RECEIVABLES - NET

The Hospital and Abben grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2015 and 2014 was:

	Hospital		Abben	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Medicare	\$10,608,086	\$ 8,396,170	\$181,504	\$418,653
Medicaid program	3,463,602	1,695,045	11,518	6,424
Blue Cross/Wellmark	5,500,626	5,282,930	124,672	257,348
Other payors	6,794,358	5,399,550	126,659	85,416
Clinics	<u>107,138</u>	<u>157,443</u>	<u>-</u>	<u>-</u>
Total patient receivables	26,473,810	20,931,138	444,353	767,841
Less allowance for doubtful accounts and contractual adjustments.....	<u>16,240,500</u>	<u>12,803,200</u>	<u>310,100</u>	<u>550,200</u>
Patient Receivables - Net	<u>\$10,233,310</u>	<u>\$ 8,127,938</u>	<u>\$134,253</u>	<u>\$217,641</u>

SPENCER MUNICIPAL HOSPITAL AND
ABBEY CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

5. CAPITAL ASSETS

A summary of the Hospital's changes in capital assets for 2015 and 2014 is as follows:

	Year Ended June 30, 2015			
	Beginning Balance	Additions	Disposals and Transfers - Net	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,460,747	\$ 445,703	\$ -	\$ 2,906,450
Construction in progress	134,274	2,277,764	(1,552,946)	859,092
Total capital assets not being depreciated	2,595,021	2,723,467	(1,552,946)	3,765,542
Other capital assets:				
Land improvements	1,812,260	14,940	25,251	1,852,451
Buildings	52,762,780	2,755,631	200,563	55,718,974
Fixed equipment	10,688,876	81,621	176,911	10,947,408
Major moveable equipment	35,794,573	2,705,129	890,117	39,389,819
Total other capital assets	101,058,489	5,557,321	1,292,842	107,908,652
Total capital assets	103,653,510	8,280,788	(260,104)	111,674,194
Less accumulated depreciation for:				
Land improvements	1,106,126	86,607	-	1,192,733
Buildings	19,627,560	1,888,659	(55)	21,516,164
Fixed equipment	7,054,644	499,287	-	7,553,931
Major moveable equipment	25,731,979	3,210,730	(44,057)	28,898,652
Total accumulated depreciation	53,520,309	5,685,283	(44,112)	59,161,480
CAPITAL ASSETS - NET	\$ 50,133,201	\$2,595,505	\$ (215,992)	\$ 52,512,714

	Year Ended June 30, 2014			
	Beginning Balance	Additions	Disposals and Transfers - Net	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,430,601	\$ 30,146	\$ -	\$ 2,460,747
Construction in progress	3,258,989	5,481,261	(8,605,976)	134,274
Total capital assets not being depreciated	5,689,590	5,511,407	(8,605,976)	2,595,021
Other capital assets:				
Land improvements	1,845,429	-	(33,169)	1,812,260
Buildings	48,433,950	395,938	3,932,892	52,762,780
Fixed equipment	10,152,110	27,880	508,886	10,688,876
Major moveable equipment	45,275,858	1,230,279	(10,711,564)	35,794,573
Total other capital assets	105,707,347	1,654,097	(6,302,955)	101,058,489
Total capital assets	111,396,937	7,165,504	(14,908,931)	103,653,510
Less accumulated depreciation for:				
Land improvements	1,053,531	85,765	(33,170)	1,106,126
Buildings	19,250,160	1,672,423	(1,295,023)	19,627,560
Fixed equipment	7,241,819	446,691	(633,866)	7,054,644
Major moveable equipment	35,304,377	3,227,910	(12,800,308)	25,731,979
Total accumulated depreciation	62,849,887	5,432,789	(14,762,367)	53,520,309
CAPITAL ASSETS - NET	\$ 48,547,050	\$1,732,715	\$ (146,564)	\$ 50,133,201

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

6. LONG-TERM DEBT

The Hospital's long-term debt activity as of and for the years ended June 30, 2015 and 2014 is as follows:

	June 30, <u>2014</u>	<u>Payments</u>	June 30, <u>2015</u>	Due Within <u>One Year</u>
Hospital Revenue Bonds Series 2008 A (A)	\$3,968,008	\$ (816,102)	\$3,151,906	\$ 852,004
Hospital Revenue Bonds Series 2008 B (B)	<u>3,241,077</u>	<u>(656,719)</u>	<u>2,584,358</u>	<u>691,188</u>
	<u>\$7,209,085</u>	<u>\$(1,472,821)</u>	<u>\$5,736,264</u>	<u>\$1,543,192</u>

	June 30, <u>2013</u>	<u>Payments</u>	June 30, <u>2014</u>	Due Within <u>One Year</u>
Hospital Revenue Bonds Series 2008 A (A)	\$ 4,749,435	\$ (781,427)	\$3,968,008	\$ 816,102
Hospital Revenue Bonds Series 2008 B (B)	<u>3,864,771</u>	<u>(623,694)</u>	<u>3,241,077</u>	<u>656,719</u>
	<u>\$ 8,614,206</u>	<u>\$(1,405,121)</u>	<u>\$7,209,085</u>	<u>\$1,472,821</u>

(A) The Series 2008A bonds are payable in monthly principal and interest payments of \$81,049 at a fixed interest rate of 4.29% through December 2018.

(B) The Series 2008B bonds are payable in monthly principal and interest payments of \$67,410 at a fixed interest rate of 5.10% through December 2018.

The maturities and payment components of the Hospital's long-term debt are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$1,543,192	\$238,318	\$1,781,510
2017	1,618,215	163,295	1,781,510
2018	1,696,266	85,244	1,781,510
2019	<u>878,591</u>	<u>12,184</u>	<u>890,775</u>
TOTAL	<u>\$5,736,264</u>	<u>\$499,041</u>	<u>\$6,235,305</u>

The revenue bonds were issued under the provisions of Chapter 384.24A of the Code of Iowa and as such the principal and interest payments are payable solely from the revenues of the Hospital and do not constitute a liability or obligation of the City of Spencer. The bond proceeds have been used to finance building additions, building improvements, and purchase medical equipment.

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

6. LONG-TERM DEBT - Continued

The Hospital has pledged future revenues, net of defined expenses, to repay the bonds. The net pledged revenues, as defined in the bond document, and the principal and interest requirements for the Hospital's long-term debt are as follows:

	<u>2015</u>	<u>2014</u>
Net pledged revenues	<u>\$11,440,102</u>	<u>\$ 9,072,229</u>
Principal and interest requirements	<u>\$ 1,781,510</u>	<u>\$ 1,781,510</u>

7. PENSION PLAN

Plan Description - Iowa Public Employees' Retirement System (IPERS) membership is mandatory for employees of the Hospital. Employees of the Hospital are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by IPERS. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits

A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

Protection occupation members may retire at normal retirement age which is generally at age 55.

SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

7. PENSION PLAN - Continued

Pension Benefits - Continued

The formula used to calculate a protection occupation members' monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point.

IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

7. PENSION PLAN - Continued

Contributions - Continued

The contribution rates as a percent of pay for 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Regular members' rates	5.95%	5.95%
Hospital rates	<u>8.93</u>	<u>8.93</u>
Total	<u>14.88%</u>	<u>14.88%</u>
Protection occupation members' rates	6.76%	6.76%
Hospital rates	<u>10.14</u>	<u>10.14</u>
Total	<u>16.90%</u>	<u>16.90%</u>
Hospital's Total Contributions	<u>\$1,976,514</u>	<u>\$1,934,932</u>

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Hospital reported a liability of \$12,607,868 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Hospital's collective proportion was 0.317656 percent, which was a decrease of 0.018801 from its collective proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Hospital recognized pension expense of \$729,901. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 138,437	\$ 11,716
Changes of assumptions	562,153	280
Net difference between projected and actual earnings on pension plan investments	-	4,985,711
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	-	1,039,469
Hospital contributions subsequent to the measurement date	<u>1,976,514</u>	<u>-</u>
Total	<u>\$2,677,104</u>	<u>\$6,037,176</u>

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

7. PENSION PLAN - Continued

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued

\$1,976,514 reported as deferred outflows of resources related to pensions resulting from Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$(1,328,408)
2017	(1,328,408)
2018	(1,328,408)
2019	(1,328,408)
2020	<u>(22,954)</u>
	<u>\$(5,336,586)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent per annum
Salary increases (effective June 30, 2010)	4.0 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term Investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

7. PENSION PLAN - Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Rate of Return</u>
US Equity	23%	6.31%
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	<u>1</u>	(.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease <u>6.5%</u>	Discount Rate <u>7.5%</u>	1% Increase <u>8.5%</u>
Hospital's proportionate share of the net pension liability	\$24,205,068	\$12,607,868	\$2,819,022

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

7. PENSION PLAN - Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan

At June 30, 2015, the Hospital had no payables to IPERS for legally required employer contributions and for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

8. OTHER POST EMPLOYMENT BENEFITS

Plan Description - In accordance with state law, the Hospital operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 461 active and 9 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug and dental benefit plans are self-insured and are administered by a third party. Retirees under age 65 pay 100% of the full active employee premium rates. This results in an implicit subsidy and an Other Post Employment Benefit (OPEB) liability.

Funding Policy - The contribution requirements of the plan members are established and may be amended by the Hospital. The Hospital currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The Hospital's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Hospital, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for June 30, 2015, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation:

Annual required contribution, ARC	\$ 97,311
Interest on net OPEB obligation	14,813
Adjustment to annual required contribution	<u>(20,208)</u>
Annual OPEB cost	91,916
(Contributions made) claims paid	<u>(191,147)</u>
Increase (decrease) in net OPEB obligation	(99,231)
Net OPEB obligation - beginning of year	<u>329,169</u>
Net OPEB obligation - end of year	<u>\$229,938</u>

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

8. OTHER POST EMPLOYMENT BENEFITS - Continued

Annual OPEB Cost and Net OPEB Obligation - Continued - For calculation of the net OPEB obligation, the actuary has set the transition date as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2015.

For the year ended June 30, 2015, the Hospital had actual contributions in excess of claims of \$191,147. The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2015 are summarized as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$ 91,916	(208)%	\$229,938
2014	92,561	57%	329,169
2013	83,276	(19)%	289,782
2012	83,820	60%	190,438

Funding Status and Funding Progress - As of January 1, 2014, the most recent actuarial valuation report, which provides actuarial liabilities as of July 1, 2013, for the period July 1, 2013 through June 30, 2015, the actuarial accrued liability was \$1,141,505 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,141,505. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$21,862,000, and the ratio of the UAAL to the covered payroll was 5.2%. As of June 30, 2015 and 2014, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

8. OTHER POSTEMPLOYMENT BENEFITS - Continued

Actuarial Methods and Assumptions - Continued - As of the January 1, 2014 actuarial valuation report, which provides actuarial liabilities as of July 1, 2013, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the Hospital's funding policy. The projected annual medical trend rate started at 7%. The ultimate medical trend rate is 5%. The Hospital's trend rate is reduced 1% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the Actuary's Pension Handbook.

Projected claim costs of the medical plan are approximately \$1,124 per month for retirees. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

9. RISK MANAGEMENT

The Hospital and Abben are exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; and employee health and accident benefits. Certain of these risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

The Hospital is self-insured for the following types of risk exposures:

Health Benefits

The Hospital has established an Employee Health Insurance Plan that self insures health benefits. Self-insurance is in effect up to a specific stop loss amount of \$70,000 per individual and an aggregate stop loss amount of approximately \$5.5 million. Coverage from private insurance companies is maintained for losses in excess of the aggregate stop loss amount up to a maximum of \$1,000,000 per policy period. Claims handling procedures are performed by an independent claims administrator. Losses are accrued based upon the Hospital's estimates of the aggregate liability for claims incurred using certain assumptions followed in the insurance industry and based on the Hospital's experience. The amounts of unpaid claims included in the financial statements were \$392,516 and \$378,876 at June 30, 2015 and 2014, respectively, and are included in other current liabilities.

Unemployment Compensation

The Hospital is also self-insured for unemployment compensation claims. Unemployment is charged quarterly as the state assesses the Hospital based upon actual claims paid.

SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

10. RELATED PARTY TRANSACTIONS

Spencer Regional Healthcare Foundation

The Spencer Regional Healthcare Foundation (Foundation) is a tax-exempt non-profit organization established to solicit contributions for qualifying health care facilities within a 20-mile radius of Spencer, Iowa. The Foundation is governed by an independent board, but it does include a minority number of members from the Hospital board; accordingly, the Hospital and the Foundation are considered related parties. Management has determined that the economic resources received from or held by the Foundation are not significant to the Hospital. Therefore, the Foundation is not reported with the Hospital under GASB standards. The Foundation made charitable contributions to the Hospital in the amount of \$387,903 and \$68,059 during 2015 and 2014, respectively.

Abben Cancer Center, LLC

The Hospital has entered into various agreements with Abben whereby the Hospital will provide management and operating services and lease a building and related equipment to Abben. The agreements include defined methodologies to calculate the rates and are cancelable by either party 90 days prior to the anniversary date of the agreements. The following summarizes the transactions with Abben:

	<u>2015</u>	<u>2014</u>
Personnel service fees for benefits and expenses	<u>\$ 186,821</u>	<u>\$ 185,554</u>
Leased employees' salaries	<u>\$ 428,639</u>	<u>\$ 426,694</u>
Building and equipment rental income	<u>\$ 715,352</u>	<u>\$ 718,439</u>

At June 30, 2015 and 2014, the Hospital's receivable from Abben was \$218,463 and \$131,571, respectively, which is included in other receivables. The balance consists of the above fees and cash advances for direct operating expenses less cash repayments.

Board of Trustees

The Hospital has depository accounts at local financial institutions who are affiliated with two Hospital trustees. The Hospital earned interest income of \$5,990 and \$9,768 in 2015 and 2014, respectively, on accounts held at these financial institutions.

The Hospital purchased supplies of \$7,911 and \$4,309 from companies separately owned in part by Hospital trustees in 2015 and 2014, respectively.

The Hospital incurred farm management fees of \$5,834 and \$5,636 from a company owned in part by a Hospital trustee in 2015 and 2014, respectively.

SPENCER MUNICIPAL HOSPITAL AND
ABBEN CANCER CENTER, LLC
NOTES TO FINANCIAL STATEMENTS - Continued

11. OPERATING LEASES

The Hospital has entered into noncancelable operating lease agreements involving two medical clinics. The Hospital has exercised its renewal options which have extended the leases to various dates through fiscal year 2020. The rental expense for 2015 and 2014 was \$595,503 and \$557,283, respectively.

The following is a schedule of future minimum rental payments to be made:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 572,298
2017	572,298
2018	559,748
2019	547,198
2020	<u>91,200</u>
TOTAL	<u>\$2,342,742</u>

The Hospital subleases one of the above clinics and leases office space in its medical office building to unrelated parties under noncancelable operating lease agreements. The terms of the leases expire at various dates through fiscal year 2020 and have optional renewal clauses with annual rental increase provisions to recover increased expenses. The rental income under the agreements for 2015 and 2014 was \$723,642 and \$726,165, respectively, and is included in investment income.

The following is a schedule of future minimum rental payments to be received, including the subleases:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 400,122
2017	346,869
2018	39,319
2019	34,477
2020	<u>5,477</u>
TOTAL	<u>\$ 826,264</u>

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

11. OPERATING LEASES - Continued

The cost and accumulated depreciation of the leased property, including the property leased to Abben are as follows:

	<u>2015</u>	<u>2014</u>
Medical office buildings	\$ 3,866,606	\$ 3,864,496
Medical clinic equipment	80,296	273,782
Abben building	2,864,695	2,864,695
Abben equipment	4,053,483	4,052,408
Residential property	<u>391,599</u>	<u>346,688</u>
Total property and equipment	11,256,679	11,402,069
Less accumulated depreciation	<u>5,900,984</u>	<u>5,273,890</u>
Net property and equipment	<u>\$ 5,355,695</u>	<u>\$ 6,128,179</u>

12. COMMITMENTS

The Hospital has committed to construct or purchase various capital improvement projects totaling approximately \$4,700,000, which are expected to be funded using current cash reserves.

The Hospital has also entered into other agreements that have committed it to future payments. The commitments include binding purchase orders, supplemental payments to physicians' groups, equipment maintenance agreements, service agreements, and physician recruiting agreements. As of June 30, 2015, the total amount expected to be paid on these commitments is approximately \$1,800,000 with the majority to be paid in 2016.

13. ACCOUNTING CHANGE/RESTATEMENT

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27* was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

SPENCER MUNICIPAL HOSPITAL AND
 ABBEN CANCER CENTER, LLC
 NOTES TO FINANCIAL STATEMENTS - Continued

13. ACCOUNTING CHANGE/RESTATEMENT - Continued

	<u>Net Position</u>
Net position June 30, 2014, as previously reported	\$95,267,093
Net pension liability at June 30, 2014	(19,155,018)
Deferred outflows of resources related to contributions made after the June 30, 2013 measurement date	<u>1,930,837</u>
Net position July 1, 2014, as restated	<u>\$78,042,912</u>

14. SUBSEQUENT EVENT

In 2015, the Hospital agreed to enter into a provider based relationship with the local family practice clinic, whereby the clinic would become a department of the Hospital. The clinic's staff will continue to be employed by their employer and be leased to the Hospital through a professional services agreement. All clinic revenues and operating expenses will flow through the Hospital. The agreement went into effect on July 1, 2015 and may be terminated by either party with a 180-day written notice.

In conjunction with the agreement, the parties entered into an accounts receivable purchase agreement and an equipment and leasehold improvement lease. The Hospital agreed to purchase the clinic's accounts receivable for approximately \$853,000, subject to an adjustment for actual collections and to lease identified properties for a three-year period ending on June 30, 2018. The lease requires monthly payments totaling \$109,147 per year.

**SPENCER MUNICIPAL HOSPITAL
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

SPENCER MUNICIPAL HOSPITAL
BUDGETARY COMPARISON SCHEDULE AND RELATED NOTES
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Original Budgeted Amounts</u>	<u>Amended Budgeted Amounts</u>	<u>Actual Accrual Basis</u>	<u>Budget to Actual Variance</u>
Operating revenues	\$67,013,627	\$72,713,627	\$72,647,597	\$ (66,030)
Operating expenditures	<u>64,333,062</u>	<u>65,333,062</u>	<u>63,700,151</u>	<u>1,632,911</u>
Operating income	2,680,565	7,380,565	8,947,446	1,566,881
Other nonoperating changes in net position	<u>579,510</u>	<u>(320,490)</u>	<u>(495,607)</u>	<u>(175,117)</u>
Changes in Net Position	<u>\$ 3,260,075</u>	<u>\$ 7,060,075</u>	<u>\$ 8,451,839</u>	<u>\$ 1,391,764</u>

NOTES

1. This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences.
2. The Hospital Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the accrual basis following required public notice and hearing in accordance with Chapters 24 and 392.6 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate city officials. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.
3. For 2015, the Hospital's expenditures did not exceed the amount budgeted.

SPENCER MUNICIPAL HOSPITAL
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Iowa Public Employees' Retirement system
Last Fiscal Year
(Dollar amounts in thousands)

Required Supplementary Information

	<u>2015</u>
Hospital's proportion of the net pension liability (asset)317656%
Hospital's proportionate share of the net pension liability (asset)	\$ 12,608
Hospital's covered-employee payroll	\$ 22,152
Hospital's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	56.92%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Hospital will present information for those years for which information is available.

SPENCER MUNICIPAL HOSPITAL
SCHEDULE OF HOSPITAL CONTRIBUTIONS

Iowa Public Employees' Retirement System
Last 10 Fiscal Years
(Dollar amounts in thousands)

Required Supplementary Information

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 1,977	\$ 1,935	\$ 1,959	\$ 1,759	\$ 1,490	\$ 1,404	\$ 1,278	\$ 1,209	\$ 1,144	\$ 1,087
Contributions in relation to the statutorily required contribution	(1,977)	(1,935)	(1,959)	(1,759)	(1,490)	(1,404)	(1,278)	(1,209)	(1,144)	(1,087)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Hospital's covered-employee payroll	\$ 23,208	\$ 22,152	\$ 23,048	\$ 22,735	\$ 22,417	\$ 22,139	\$ 21,172	\$ 21,002	\$ 20,383	\$ 19,711
Contributions as a percentage of covered-employee payroll	8.52%	8.74%	8.50%	7.74%	6.65%	6.34%	6.04%	5.76%	5.61%	5.51%

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2015

1. CHANGES OF BENEFIT TERMS

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

2. CHANGES OF ASSUMPTIONS

The 2014 valuation implemented the following refinements as a result of quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 years period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

SPENCER MUNICIPAL HOSPITAL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2015 -
Continued

2. CHANGES OF ASSUMPTIONS - Continued

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

SPENCER MUNICIPAL HOSPITAL
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2010	July 1, 2009	-	\$ 662,439	\$ 662,439	0%	\$17,710,000	3.7%
2011	July 1, 2009	-	\$ 662,439	\$ 662,439	0%	\$17,710,000	3.7%
2012	July 1, 2011	-	\$ 764,554	\$ 764,554	0%	\$18,840,000	4.1%
2013	July 1, 2011	-	\$ 764,554	\$ 764,554	0%	\$19,159,000	4.0%
2014	July 1, 2013	-	\$1,141,505	\$1,141,505	0%	\$21,168,000	5.4%
2015	July 1, 2013	-	\$1,141,505	\$1,141,505	0%	\$21,862,000	5.2%

See Note 8 in the accompanying Notes to Financial Statements for plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status, and funding progress.

**SPENCER MUNICIPAL HOSPITAL
SUPPLEMENTAL INFORMATION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

SPENCER MUNICIPAL HOSPITAL
GROSS PATIENT SERVICE REVENUE
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015				2014	
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Skilled Care</u>	<u>Home Health</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICE:						
Medical and surgery.....	\$ 6,375,984	\$ 1,023,384	\$ 3,140	\$ -	\$ 7,402,508	\$ 6,868,045
Mental health.....	3,373,303	29,072	-	-	3,402,375	1,726,782
Nursery.....	499,397	-	-	-	499,397	493,826
Intensive care.....	1,396,551	85,177	-	-	1,481,728	1,296,038
Skilled care.....	-	-	439,333	-	439,333	344,995
TOTAL DAILY PATIENT SERVICES	11,645,235	1,137,633	442,473	-	13,225,341	10,729,686
OTHER NURSING SERVICES:						
Same day surgery.....	10,344	3,265,652	-	-	3,275,996	2,757,714
Intravenous therapy.....	700,347	1,329,650	16,563	-	2,046,560	1,810,695
Delivery and labor rooms.....	823,349	531,873	-	-	1,355,222	1,379,190
Operating rooms.....	6,226,478	31,848,232	17,079	-	38,091,789	33,440,421
Post anesthesia care unit	733,526	2,584,831	7,060	-	3,325,417	2,931,361
Emergency service.....	1,480,214	8,174,196	-	-	9,654,410	8,648,474
Medical supplies.....	13,624,411	5,384,286	5,186	247	19,014,130	16,960,919
Medical oncology.....	24,649	4,526,481	1,100	-	4,552,230	3,847,271
TOTAL OTHER NURSING SERVICES	23,623,318	57,645,201	46,988	247	81,315,754	71,776,045
OTHER PROFESSIONAL SERVICES:						
Respiratory therapy.....	924,409	177,150	71,282	-	1,172,841	969,471
Ambulance.....	-	2,178,693	-	-	2,178,693	1,870,065
Laboratory.....	3,449,420	6,739,032	62,902	-	10,251,354	8,967,085
Blood bank.....	166,474	154,043	636	-	321,153	377,380
Electrocardiology.....	529,070	1,217,869	1,144	-	1,748,083	1,513,915
Electroencephalography.....	-	25,128	-	-	25,128	18,420
Radiology.....	953,503	4,912,121	20,821	-	5,886,445	5,356,332
Ultrasound.....	168,271	2,633,660	2,754	-	2,804,685	2,333,453
Stereotactic biopsy.....	-	511,028	-	-	511,028	316,377

See Independent Auditors' Report.

Schedule 1 - Cont.

SPENCER MUNICIPAL HOSPITAL
GROSS PATIENT SERVICE REVENUE - Continued
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015					2014	
	Inpatient	Outpatient	Skilled Care	Home Health	Total	Total	Total
OTHER PROFESSIONAL SERVICES- Continued:							
CT scan.....	\$ 1,059,810	\$ 9,300,411	\$ 9,119	\$ -	\$ 10,369,340	\$ 8,510,900	
MRI.....	192,765	2,885,179	8,022	-	3,085,966	2,792,547	
Nuclear medicine.....	29,736	972,176	2,680	-	1,004,592	960,238	
Radiation oncology.....	32,372	-	41,882	-	74,254	60,088	
Pharmacy.....	2,873,277	11,661,735	198,994	20	14,734,026	13,983,197	
Therapy pool.....	-	156,267	-	-	156,267	162,278	
Anesthesiology.....	592,520	1,935,292	1,086	-	2,528,898	2,225,994	
Physical therapy.....	568,513	1,893,682	54,109	64,002	2,580,306	2,206,891	
Speech therapy.....	34,554	472,124	13,489	10,783	530,950	390,665	
Enterostomal service.....	66,545	456,620	27,289	-	550,454	509,428	
Occupational therapy.....	322,430	446,339	42,819	14,883	826,471	855,908	
Pulmonary function testing.....	285	157,739	-	-	158,024	169,338	
Sleep study.....	9,656	771,909	113	-	781,678	619,489	
Pulmonary rehab.....	-	62,073	-	-	62,073	69,378	
Cardiac rehab.....	-	230,788	-	-	230,788	236,206	
Dialysis - Spencer.....	93	5,387,960	-	-	5,388,053	4,560,004	
Dialysis - Spirit Lake.....	-	11,985,055	-	-	11,985,055	9,713,005	
Home health:							
Registered nurse care.....	-	-	-	539,327	539,327	515,247	
Aides care.....	-	-	-	378,493	378,493	421,092	
County assistance.....	-	-	-	165,000	165,000	146,667	
Other care.....	-	-	-	1,217,034	1,217,034	1,503,522	
TOTAL OTHER PROFESSIONAL SERVICES	11,973,703	67,324,073	559,141	2,389,542	82,246,459	72,334,580	
TOTAL GROSS PATIENT SERVICE REVENUE	\$ 47,242,256	\$ 126,106,907	\$ 1,048,602	\$ 2,389,789	\$ 176,787,554	\$ 154,840,311	

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
NET PATIENT SERVICE REVENUE
AND OTHER OPERATING REVENUES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
GROSS PATIENT SERVICE REVENUE (Schedule 1).....	\$ 176,787,554	\$ 154,840,311
ADJUSTMENTS TO PATIENT SERVICE REVENUE:		
Medicare program.....	67,960,386	58,430,290
Medicaid program.....	11,835,055	8,229,757
Blue Cross / Wellmark.....	20,988,715	18,065,563
Other payors.....	5,014,081	4,567,187
Charity care.....	132,875	305,842
Bad debts.....	1,727,831	2,901,464
TOTAL ADJUSTMENTS TO PATIENT SERVICE REVENUE	<u>107,658,943</u>	<u>92,500,103</u>
NET PATIENT SERVICE REVENUE	<u>\$ 69,128,611</u>	<u>\$ 62,340,208</u>
OTHER OPERATING REVENUES:		
Abben fees:		
Personnel services.....	\$ 186,821	\$ 185,554
Building and equipment rental.....	715,352	718,439
Ag health and safety clinic.....	-	43,574
Athletic enhancement.....	91,341	94,835
Auxiliary income.....	1,620	235
Cafeteria sales.....	331,505	328,904
Diagnostic imaging storage.....	32,785	32,529
Education programs.....	136,484	132,963
Employee health.....	2,002	3,352
Gift shop.....	75,902	65,391
Home medical equipment co. earnings (losses).....	6,066	(22,392)
Housekeeping revenue.....	28,384	28,371
Immunizations	70,676	70,720
Laboratory client billing.....	29,413	24,647
Medical record transcripts.....	19,988	20,767
Miscellaneous.....	66,985	35,229
Outreach services:		
Enterostomal therapy.....	84,384	80,166
Speech therapy.....	37,844	35,701
Occupational therapy.....	26,799	37,608
Physical therapy.....	54,809	116,049
Planet heart and stroke screening.....	24,775	32,537
Purchase discounts.....	6,423	5,582
Salary reimbursements:		
Sports medicine.....	143,695	115,333
Other.....	262,079	107,980
Steam sold.....	5,320	6,707
Technology consulting.....	500	11,000
Wellness screenings.....	26,443	27,446
TOTAL OTHER OPERATING REVENUES	<u>\$ 2,468,395</u>	<u>\$ 2,339,227</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	Salaries		Professional Services		Supplies and Other Expenses	
	2015	2014	2015	2014	2015	2014
Clinical resources.....	\$ 359,482	\$ 345,440	\$ 297	\$ -	\$ 1,109	\$ 534
Medical and surgery.....	2,025,343	1,918,712	53,423	21,799	214,356	191,022
Behavioral Health.....	915,431	804,971	317,596	23,651	33,371	14,384
Obstetrics.....	598,033	585,568	1,072	1,531	80,315	83,666
Women's health.....	39,302	34,724	200	-	1,864	1,701
Intensive care.....	572,557	496,199	99,704	86,298	37,702	29,083
Intravenous therapy.....	-	-	-	-	38,617	36,563
Dialysis - Spencer.....	478,844	382,758	94,142	92,239	102,313	96,622
Dialysis - Spirit Lake.....	547,998	563,318	217,678	200,761	309,173	341,803
Respiratory therapy.....	269,210	245,402	1,689	1,253	31,596	30,000
Sleep studies.....	-	-	182,995	151,383	7	95
Operating room.....	1,059,449	1,083,644	484,292	520,284	1,580,079	1,155,191
Central sterilization.....	110,038	101,927	11,095	4,384	170,892	177,507
Same day surgery.....	995,660	957,589	6,096	10,034	98,903	95,174
Post anesthesia care unit.....	249,396	258,182	-	-	97,653	93,003
Emergency service.....	923,642	841,737	1,743,831	1,602,155	91,305	84,731
Ambulance.....	554,234	583,878	1,206	780	77,552	61,999
Central supply.....	89,288	83,214	-	-	5,629,543	4,981,758
Laboratory.....	667,898	657,759	519,626	482,371	401,511	403,028
Blood bank.....	-	-	-	-	192,676	216,823
Electrocardiology.....	70,996	73,072	94,292	78,952	281	-
Radiology.....	532,403	538,490	128,914	66,718	425,037	407,614
Ultrasound.....	174,979	179,962	2,366	1,576	42,261	38,882
CT scan.....	201,141	182,281	72,544	73,441	284,007	283,825
MRI.....	67,382	67,060	-	167	116,798	150,396
PET/CT scan.....	-	-	117,470	169,825	1,365	2,092
Nuclear medicine.....	93,134	92,253	-	415	186,877	196,472
Pharmacy.....	953,700	926,605	133,177	144,667	76,056	78,822
Anesthesiology.....	48,166	53,645	8,075	-	231,188	214,590

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	Salaries		Professional Services		Supplies and Other Expenses	
	2015	2014	2015	2014	2015	2014
Physical therapy.....	\$ 673,628	\$ 691,623	\$ 21,394	\$ 8,204	\$ 18,208	\$ 22,520
Occupational therapy.....	182,608	193,712	36,033	91,773	14,123	16,243
Speech therapy.....	111,767	104,229	406	1,949	8,692	5,276
Sports medicine.....	18,245	17,995	387,600	387,600	81,098	94,983
Therapy pool.....	-	-	-	-	-	4,789
Athletic enhancement.....	88,014	80,116	694	845	7,369	7,536
Cardiac rehabilitation.....	130,102	127,483	276	542	6,471	8,481
AG health and safety clinic.....	-	23,667	-	-	-	45,782
Social services.....	97,438	91,038	35	75	1,254	32
Medical oncology.....	463,940	419,417	651,390	613,803	63,200	41,846
Home health.....	755,783	733,864	14,303	13,068	46,305	44,985
Wound Care.....	132,124	120,486	400	-	25,971	23,329
Hospice.....	151,045	172,016	103,812	155,862	15,094	20,604
Staff development.....	217,047	210,055	103,740	26,264	40,209	40,048
Nutrition services.....	528,623	546,154	289,267	275,359	439,632	469,840
Plant.....	539,570	521,134	2,834	509	302,901	322,246
Utilities.....	-	-	-	-	852,564	885,532
Valet.....	64,133	62,512	1,376	2,275	2,378	2,682
Housekeeping.....	527,556	559,595	148,910	131,500	119,202	121,123
Gift Shop.....	-	-	-	-	76,967	68,805
Laundry.....	24,500	21,233	197,063	176,427	33,584	54,163
Service aides.....	-	7,677	-	-	-	-
Medical records.....	501,981	533,532	101,716	92,271	78,950	61,532
General accounting.....	325,583	310,198	4,212	8,521	20,249	22,041
Patient accounts.....	713,872	765,150	279,831	233,335	92,153	78,003
Information systems.....	577,228	533,965	99,185	53,328	792,408	723,106
Administration.....	1,325,119	1,219,727	562,718	783,058	717,114	696,537
Safety.....	66,434	66,363	548	199	348	490
Materials management.....	143,089	150,603	22,350	23,350	41,337	35,835

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	Salaries		Professional Services		Supplies and Other Expenses	
	2015	2014	2015	2014	2015	2014
Communications.....	\$ -	\$ -	\$ 1,790	\$ 4,944	\$ 87,085	\$ 74,332
Printing and duplicating.....	5,182	9,489	-	-	139,980	140,138
Human resources.....	275,609	267,737	28,426	22,919	107,975	44,813
Infection control.....	70,928	68,358	585	535	1,102	403
Quality.....	461,155	418,825	189,060	192,648	19,106	17,921
SHAPE	75,457	70,490	-	1,196	81	72
Insurance.....	-	-	-	-	278,403	270,348
Milford Clinic.....	105,646	93,048	221,339	202,617	100,774	120,837
Sioux Rapids Clinic.....	90,837	77,453	190,648	178,020	65,604	69,218
Clinic Administration.....	26,526	20,240	-	-	1,527	910
TOTAL	\$ 22,068,475	\$ 21,367,574	\$ 7,953,721	\$ 7,417,680	\$ 15,253,825	\$ 14,124,761

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

PATIENT RECEIVABLES ANALYSIS OF AGING:

	2015		2014	
	<u>Amount</u>	<u>Percent To Total</u>	<u>Amount</u>	<u>Percent To Total</u>
DAYS SINCE DISCHARGE:				
00 - 30.....	\$ 10,337,631	39.05%	\$ 9,290,935	44.39%
31 - 60.....	2,761,830	10.43%	3,025,684	14.47%
61 - 90.....	1,654,555	6.25%	1,064,088	5.08%
91 - 120.....	1,187,704	4.49%	604,107	2.89%
Over 120.....	5,166,743	19.52%	2,626,660	12.55%
Clinic receivables.....	107,138	0.40%	157,443	0.75%
TOTAL RECEIVABLES BILLED	21,215,601	80.14%	16,768,917	80.11%
In Hospital.....	5,258,209	19.86%	4,162,221	19.89%
TOTAL PATIENT RECEIVABLES	26,473,810	100.00%	20,931,138	100.00%
Allowance for doubtful accounts.....	(2,319,000)		(2,318,000)	
Allowance for contractual adjustments.....	(13,873,000)		(10,415,000)	
Clinic allowance for contractual adjustments ...	(48,500)		(70,200)	
TOTAL ALLOWANCES	(16,240,500)		(12,803,200)	
PATIENT RECEIVABLES - NET	<u>\$ 10,233,310</u>		<u>\$ 8,127,938</u>	

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

	<u>2015</u>	<u>2014</u>
BALANCE - BEGINNING OF YEAR	\$ 2,318,000	\$ 2,346,000
Provision charged to expense.....	1,727,831	2,901,464
Accounts written off.....	(3,096,635)	(3,839,327)
Recoveries of accounts previously written off.....	1,369,804	909,863
BALANCE - END OF YEAR	<u>\$ 2,319,000</u>	<u>\$ 2,318,000</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
INVENTORIES AND PREPAID EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
INVENTORIES:		
Store room.....	\$ 431,026	\$ 409,652
Nutrition services.....	17,946	22,068
Laboratory.....	87,235	86,543
Pharmacy.....	822,916	673,174
Radiology.....	8,977	14,713
Surgery.....	1,744,949	1,715,315
Other departments.....	41,105	40,479
	<hr/>	<hr/>
TOTALS	<u>\$ 3,154,154</u>	<u>\$ 2,961,944</u>
PREPAID EXPENSES:		
Service contracts and other.....	\$ 1,269,755	\$ 1,041,045
Association dues.....	38,550	38,324
Insurance.....	-	16,050
	<hr/>	<hr/>
TOTALS	<u>\$ 1,308,305</u>	<u>\$ 1,095,419</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL
INVESTMENT TRANSACTIONS
FOR THE YEAR ENDED JUNE 30, 2015

	Balances Beginning <u>of Year</u>	Additions During the <u>Year</u>	Sales During the <u>Year</u>	Realized & Unrealized <u>Gains (Losses)</u>	Balances End <u>of Year</u>
Common stocks and mutual funds.....	\$ 11,532,062	\$ 847,194	\$ (536,514)	\$ 181,112	\$ 12,023,854
Real estate and other...	1,597,217		(3,785)	(93,500)	1,499,932
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	<u>\$ 13,129,279</u>	<u>\$ 847,194</u>	<u>\$ (540,299)</u>	<u>\$ 87,612</u>	<u>\$ 13,523,786</u>

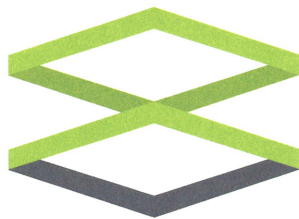
See Independent Auditors' Report.

**SPENCER MUNICIPAL HOSPITAL
OTHER INFORMATION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

SPENCER MUNICIPAL HOSPITAL
COMPARATIVE STATISTICS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
UNAUDITED

	<u>2015</u>	<u>2014</u>
Admissions:		
Medical/surgery, obstetrics & intensive care.....	2,012	1,970
Mental health unit.....	417	206
Swing bed and inn care.....	<u>95</u>	<u>83</u>
TOTAL	<u><u>2,524</u></u>	<u><u>2,259</u></u>
Discharges:		
Medical/surgery, obstetrics & intensive care.....	1,965	1,929
Mental health unit.....	419	203
Swing bed and inn care.....	<u>100</u>	<u>89</u>
TOTAL	<u><u>2,484</u></u>	<u><u>2,221</u></u>
Patient days:		
Medical/surgery, obstetrics & intensive care.....	6,942	6,626
Mental health unit.....	2,836	1,562
Swing bed and inn care.....	<u>796</u>	<u>658</u>
TOTAL	<u><u>10,574</u></u>	<u><u>8,846</u></u>
Average number of patients per day:		
Medical/surgery, obstetrics & intensive care.....	19.02	18.15
Mental health unit.....	7.77	4.28
Swing bed and inn care.....	2.18	1.80
Average length of stay (days):		
Medical/surgery, obstetrics & intensive care.....	3.45	3.36
Mental health unit.....	6.80	7.58
Swing bed and inn care.....	8.38	7.93
Births.....	<u><u>271</u></u>	<u><u>285</u></u>
Outpatient visits	<u><u>121,603</u></u>	<u><u>116,756</u></u>
Licensed beds at end of year.....	<u><u>99</u></u>	<u><u>99</u></u>

See Independent Auditors' Report.



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

To the Board of Trustees of
Spencer Municipal Hospital

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying basic financial statements of Spencer Municipal Hospital (Hospital) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, and have issued our report thereon dated October 5, 2015.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other matters that we reported to the Hospital in a separate letter dated October 5, 2015.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Spencer Municipal Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Winther, Stave & Co., LLP

October 5, 2015
Spencer, Iowa

SPENCER MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

Part I: Findings Related to the Financial Statements

None

Part II: Other Findings Related to Required Statutory Reporting

II-A-15 Certified Budget

For the year ended June 30, 2015, the Hospital's expenditures did not exceed the amount budgeted, as amended.

II-B-15 Questionable Expenditures

No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-C-15 Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

II-D-15 Business Transactions

Business transactions between the Hospital and Hospital officials or employees are detailed as follows:

<u>Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Neal Conover, Board member Chairman of Northwest Bank and affiliates	Interest income from Northwest Bank	\$ 2,891
Steve Lensing, Board member Co-owner of Arnold Motor Supply	Supply purchases	596
Kris Van Berkum, Board member Co-owner JCL Solutions	Supply purchases	7,315
John Cotton, Board member Co-owner Cotton Grave Farm Management & Realty	Farm management fees	5,834
Co-owner Community State Bank	Interest income from Community State Bank	3,099

The transactions do not appear to represent a conflict of interest since the transactions were entered into through competitive bidding in accordance with Chapter 362.5(4); additionally with regards to the banking transactions, the bank has been approved by the board of trustees in accordance with Chapter 362.5(2) of the Code of Iowa.

SPENCER MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2015

Part II: Other Findings Related to Required Statutory Reporting - Continued

II-E-15 Board Minutes

No transactions were found that we believe should have been approved in Board minutes but were not. The Board minutes were examined and appeared to give a condensed, accurate account of business transacted by the Board.

II-F-15 Deposits and Investments

No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy were noted.